

A Trading Nation: Trends in Scottish Export Trade

Alexander Green, July 2019

Scotch whisky has driven substantial exports across the globe, and the Scottish economy contributes billions to UK exports. In this report, IBISWorld assesses exporting industries centred around the Scottish market.

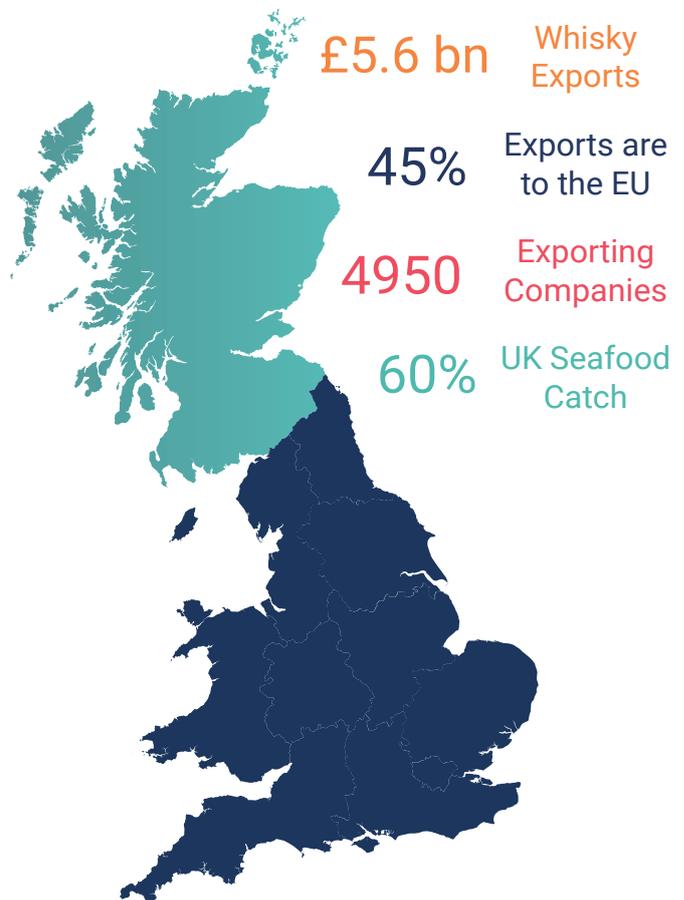
Scotch whisky's most recent headline appearance came as a result of the escalating EU-US trade dispute, in which the US Trade Representative highlighted 89 additional proposed tariff subheadings, with an approximate value of US\$4 billion (approximately £3.3 billion). A substantial figure but still far below the £5.6 billion that scotch whisky exports alone are expected to generate in 2019-20, according to the latest estimates from IBISWorld. Whisky has spearheaded substantial Scottish export growth in recent years, with Scotland's economy benefiting from exceptional export performance in the face of difficult global conditions.

Indeed, HMRC has noted that the value of Scottish exports grew faster than any other part of the United Kingdom in the last financial year and, according to the Department for International Trade, more Scottish businesses are undertaking export activity than ever before. In the first calendar quarter of 2019, 4,950 companies exported goods, 229 more than the same period last year. In this report, IBISWorld assesses some of the top performers driving this outflow of goods, building upon 2017 trade data compiled by the Office for National Statistics for the Scottish government, highlighting the most prominent export categories. All data in this report refers to Scottish international exports, conducted between Scotland and other international countries, as opposed to Scotland's internal exports to the rest of the United Kingdom.

Government backing

Similarly to the GREAT Britain and MADE campaigns, which apply to industries across the United Kingdom, the Scottish government's 'A Trading Nation' strategy offers a range of support to businesses seeking to export, with a particular focus on the top 500 exporters, which

Exports at a glance



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GREAT Britain campaign

The GREAT Britain campaign was launched in September 2011 that promotes the United Kingdom as a place to visit, study, and conduct business. It showcases what Britain has to offer with the ultimate aim of creating jobs and stimulating economic growth. The GREAT brand has received 69 national and international awards to date and is currently valued at £271 million.

account for approximately 80% of international exports. The government has highlighted six exporting sectors as priorities: Energy, Engineering and advanced manufacturing, Financial and business services, Food and drink, Life and chemical sciences, and Technology, digital and media.

The European Union is by far the largest single market for Scottish exports, accounting for approximately 45% of international exports, according to the latest figures from the Scottish government. In terms of individual countries, however, the United States is significant. The United States leads the list of 15 countries in Scotland's 'Priority Group One' of export opportunities. Together these 15 countries account for 66% of Scotland's exports, and will benefit from Scottish Development International help in each country, trade envoys for specific sectors, help from the GlobalScot network, help from in-market sector specialists, and trade missions and Ministerial visits. Given this distribution, the UK's exit from the European Union could cause substantial disruption, although US and Asian markets appear lucrative for a number of individual industries

Up like a salmon

The popularity of high-quality Scottish food and drink produce, and the global reputation of scotch whisky, has been pivotal in supporting overall growth, with approximately one-fifth of Scotland's international exports made up of food and drinks. Direct agricultural exports form a smaller but still important part of this, and revenue derived from Agriculture, Forestry and Fishing is expected to exceed half a billion pounds in 2019-20, with a substantial share of this derived from fish, both farmed and caught.

Aquaculture in the United Kingdom is dominated by Scottish establishments, which account for almost 60% of the total, and all major UK players are located in the region.

Whilst salmon is dominant (accounting for 95.2% of revenue and with Scottish-farmed salmon benefiting from PGI designation), trout and shellfish are also prominent categories, particularly in the West of Scotland. Similarly, Scotland is home to nearly half of the UK's fishermen and accounts for approximately 60% of all seafood caught in the United Kingdom.

Export destinations differ somewhat between farmed and freshly caught fish. For the former, the United States leads the way, accounting for almost 30% of exports, with France at 21.6%, and China a rising destination with 14.8%. Marine fishing, meanwhile, is more oriented towards EU markets, with France, the Netherlands and the Republic of Ireland taking the top three spots, and the United States in fourth position. However, the April 2019 deal to export live langoustines to China could benefit Scottish and Northern Irish fishing companies to the tune of a £5.3 million export boost.

A01.110 - Cereals, Leguminous Crops & Oilseed Growing

A01.130 - Vegetable Growing

A01.190 - Flower & Plant Growing

A01.200 - Fruit Growing

A01.410 - Dairy Cattle Raising

A01.450 - Sheep Farming

A01.470 - Poultry Raising

A02.000 - Forestry & Logging

A03.110 - Marine Fishing

A03.210 - Aquaculture

Strong outflow

Similar trends hold true for manufactured food and drink products; the United States is a key single market, but EU exports are substantial and China provides a growing opportunity, although anti-extravagance drives in China have limited demand for luxury goods. In 2012, the Chinese government began a crackdown on government spending and gift-giving to combat

Made in Britain

The Made in Britain organisation was formed in December 2013 following the success of the Made in Britain campaign. It offers support for the UK manufacturing sector in four main areas: sales, marketing, exports and PR. UK manufacturers can apply to use the Made in Britain marque on their products. This supports demand from consumers seeking domestically produced goods, and from international markets that associate British-made products with quality.

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widespread corruption. Luxury drinks had long been a staple of corporate and government gifting, so this posed a problem for exporters.

Whisky has led the way for food and drink exports and has outperformed the wider sector over the past few years, with malt exports also performing well. Beginning the period at £4.8 billion, Scottish whisky exports have since risen considerably, and are expected to reach approximately £5.6 billion over 2019-20. With just over four-fifths of UK Spirit Production revenue being generated from whisky, the 41.9% of spirit establishments located in Scotland hold prime position. The geographical heritage of Scotch whisky is an important distinction on international markets, as rising

global concerns regarding provenance and quality echo domestic trends.

The recent threat of US tariffs, although likely to be waived or substantially reduced following arbitration by the World Trade Organisation, is a particular problem for whisky exports. The United States is by far the largest single export market for UK spirit producers, accounting for 24.4% of the total. France, the next largest export market, accounts for just 8.8%, though the European Union as a whole remains the biggest regional destination. Further afield, although exports to the extensive Chinese market had been somewhat hampered by anti-extravagance drives, demand has since risen,

Leading Scottish International Exports

Industry	2017 (£ million)	2018-19 (£ million)	2019-20 (£ million)
Distilling, rectifying and blending of spirits	£4,840	£5,327	£5,556
Coke, refined petroleum and chemical products	£3,485	£3,484	£3,485
Mining and Quarrying	£1,940	£1,961	£1,973
Computer, electronic and optical products	£1,885	£1,883	£1,884
Transport equipment	£1,555	£1,560	£1,563
Machinery and equipment n.e.c	£1,185	£1,197	£1,203
Food products, beverages and tobacco products (excluding spirits)	£1,015	£1,023	£1,031
Basic metals and fabricated metal products (except machinery)	£920	£924	£923
Rubber, plastic and other non-metallic mineral products	£755	£756	£756
Furniture, other manufacturing; repair and installation of machinery and equipment	£630	£627	£630
Agriculture, Forestry and Fishing	£495	£498	£500
Basic pharmaceutical products and their products	£425	£420	£419
Textiles, wearing apparel, leather and related products	£325	£326	£329
Wood and paper products; and printing	£325	£325	£324
Electrical equipment	£270	£271	£271

SOURCE: EXPORT STATISTICS SCOTLAND AND IBISWORLD

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and Asian markets remain lucrative. Indeed, Singapore is Scotland’s largest food and drink export market per capita outside the European Union. The average Singapore resident spent £40 on Scottish food and drink in 2018, for example, highlighting the opportunities for high-end export growth, whilst whisky exports to India have recorded double-digit rises.

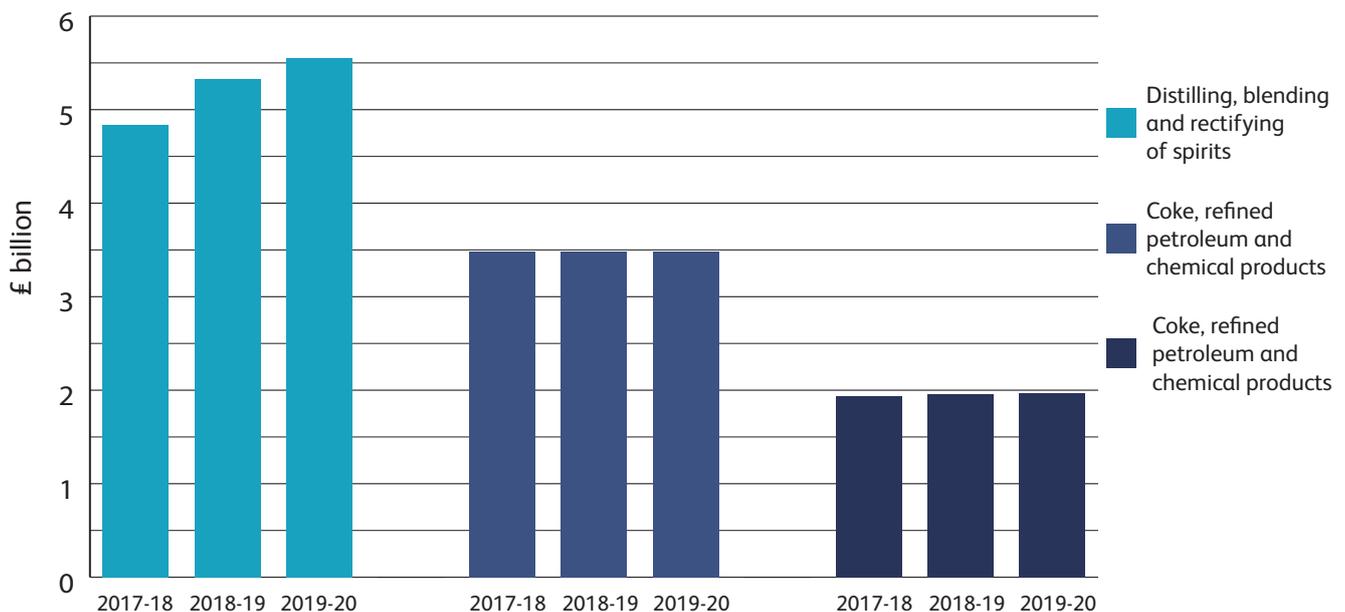
Whilst less substantial than scotch, overall food exports have also been successful, with the Food and Drink Federation highlighting that 45,000 people, 25% of the Scottish manufacturing workforce, are employed in food and drink production. According to the same source, UK food and drink exports to non-EU markets grew by 12.2% in the three months through March 2019, outstripping the 9.9% growth in exports to EU countries. This strong start to the year is expected to push overall food and drink exports beyond £6.6 billion over 2019-20. Seafood processing, expected to record two years of 4% export growth through 2019-20, plays a prominent role in this, with 39.2% of processors located in Scotland.

- C10.110 - Meat Processing*
- C10.120 - Poultry Meat Processing*
- C10.130 - Meat Product Mfg.*
- C10.200 - Seafood Processing*
- C10.310 - Potato Crisps & Snacks Production*
- C10.320 - Juice Production*

- C10.390 - Fruit & Vegetable Processing*
- C10.410 - Oil & Fat Production*
- C10.511 - Milk & Cream Production*
- C10.512 - Butter & Cheese Production*
- C10.519 - Yoghurt & Other Dairy Product Processing*
- C10.520 - Ice Cream Production*
- C10.611 - Grain Milling*
- C10.612 - Breakfast Cereals & Cereal-Based Foods Production*
- C10.710 - Bread & Bakery Goods Production*
- C10.720 - Biscuit Production*
- C10.730 - Pasta Product Mfg.*
- C10.810 - Sugar Production*
- C10.820 - Chocolate & Confectionery Production*
- C10.831 - Tea Processing*
- C10.832 - Coffee Processing*
- C10.840 - Condiments & Seasoning Mfg.*
- C10.850 - Prepared Meal Mfg.*
- C10.910 - Animal Feed Production*
- C11.010 - Spirit Production*
- C11.020 - Wine Production*
- C11.030 - Cider Production*
- C11.050 - Beer Production*
- C11.060 - Malt Mfg.*
- C11.071 - Soft Drink Production*
- C11.072 - Bottled Water Production*
- C11.073 - Fruit Drink & Functional Beverage Production*

Heavy Hitters

Largest exporting categories by value



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Float on

UK machinery and equipment exports overall are dominated by Motor Vehicle Manufacturers and Aircraft, Engine and Parts Manufacturers, the majority of which are not located in Scotland. These two industries have been hard hit by prevailing uncertainty, with the former also battling with a global shift away from diesel production in particular, and internal combustion more generally.

Owing to the distribution of these industries, Scottish exports have been less affected. Indeed, Scotland is the home to a number of prominent equipment manufacturing industries with strong ties to the global economy. More than 10% of Railway Equipment, Mining, Quarrying and Construction Machinery, and Engine and Turbine manufacturers are located in the region, and Scotland has a famous history of shipbuilding; almost 25% of UK shipbuilders are in Scotland. Shipbuilding exports, for example, grew by 7.2% in 2017-18, 4.1% in the following year, and are projected to rise by 5.2% over 2019-20.

Approximately 11.5% and 10.8% of establishments in the Engine and Turbine Manufacturing and Mining, Quarrying and Construction Machinery Manufacturing industries are located in Scotland. These industries have outperformed the wider manufacturing sector over recent years. With exports to the United States and China and Japan buoyed by the weakness of the pound, engine and turbine manufacturers are less exposed to EU concerns than many other manufacturers, and exporters have enjoyed double-digit growth since the referendum, making up for poor previous performance.

The United States is also the leading market for construction machinery exports. Exceptionally high US construction expenditure, equating to just shy of US\$1.3 trillion (approximately £994 billion) in the year through May 2019, has created lucrative opportunities for expansion.

C28.110 - Engine & Turbine Mfg.
C28.131 - Pump Mfg.
C28.132 - Compressor Mfg.

Strong Presence: UK Industries heavily concentrated in Scotland

SIC Code	Industry Title	Concentration of UK Establishments in Scotland (%)
A03.210	Aquaculture	58.7
B09.100	Petroleum & Natural Gas Support Activities	56.9
UK0.003	Renewable Electricity Generation	52.1
A03.110	Marine Fishing	51.4
C11.010	Spirit Production	47.3
B05.100	Hard Coal Mining	42.9
C11.060	Malt Manufacturing	42.9
C10.200	Seafood Processing	39.2
B06.000	Crude Petroleum & Natural Gas Extraction	32.4
D35.110	Electricity Production	30.7
A02.000	Forestry & Logging	28.8
C20.510	Explosives Manufacturing	28.6
C30.100	Shipbuilding	24.3
H50.100	Sea & Coastal Passenger Water Transport	20.5
H49.500	Pipeline Transport	20.0
K64.304	Open-Ended Investment Companies	19.8
A01.450	Sheep Farming	17.4
B08.110	Stone Quarrying	17.3
C23.130	Hollow Glass Manufacturing	17.2
G47.230	Seafood Retailers	17.2

SOURCE: IBISWORLD INDUSTRY WIZARD

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C28.140 - Tap & Valve Mfg.

C28.150 - Bearing & Gear Mfg.

C28.220 - Lifting & Handling Equipment Mfg.

C28.300 - Agricultural & Forestry Machinery Mfg.

C28.920 - Mining, Quarrying & Construction Machinery Mfg.

C28.930 - Food & Beverage Processing Machinery Mfg.

C29.100 - Motor Vehicle Mfg.

C29.200 - Trailer, Caravan & Motor Vehicle Body Mfg.

C29.300 - Motor Vehicle Parts & Accessories Mfg.

C30.110 - Shipbuilding

C30.120 - Recreational Boat & Yacht Building

C30.200 - Railway Equipment Mfg.

C30.300 - Aircraft, Engine & Parts Mfg.

C30.910 - Motorcycle Mfg.

High scores

The international gaming industry owes much to expertise concentrated in Dundee and Edinburgh, with global giant Rockstar North moving to the capital at the turn of the millennium, having been originally founded in Dundee. In addition to its supporting role in the virtuous circle surrounding Scottish game expertise, the electrical and technological equipment manufacturing sectors play a broader role in infrastructure markets, and together account for almost £2.2 billion in annual export revenue.

With the rollout of 5G technology across the United Kingdom commencing from May 2019, fibre optic cable manufacturers have been in high domestic demand, and substantial overseas investment, alongside the recent weakness of the pound, has spurred export performance. With 12.5% of UK fibre optic manufacturers based in Scotland, the region is well-placed to support ongoing technological infrastructure expansion.

With overall UK export revenue of £8.4 billion and 6.2% of establishments located in Scotland, the Measuring, Testing and Navigational Equipment Manufacturing industry accounts for the most substantial share of high-tech exports. Major destinations include the United States (19.9%), Germany (9.4%), China and Hong Kong (9.3%) and France (4.9%), with rising Chinese demand for aircraft providing a driver to underlying demand.

Manufacturers of electromedical and imaging equipment, alongside electric lighting equipment and electrical appliance manufacturers, have also performed well, but the overall picture for the sector is somewhat less bright. Growth has been marginal, and combined revenue from the Electrical equipment and Computer, electronic and optical products export categories has remained flat between 2017-18 and

2019-20. Indeed, 2017 marked a slight decline in exports across Scotland's engineering and advanced manufacturing exports, and overall exports are expected to remain relatively flat over the three years through 2019-20.

C26.110 - Electronic Component Mfg.

C26.120 - Loaded Electronic Board Mfg.

C26.200 - Computer & Peripheral Equipment Mfg.

C26.300 - Communication Equipment Mfg.

C26.400 - Consumer Electronics Mfg.

C26.510 - Measuring, Testing & Navigational Equipment Mfg.

C26.600 - Electromedical & Imaging Equipment Mfg.

C27.110 - Electric Motor, Generator & Transformer Mfg.

C27.120 - Electricity Distribution & Control Apparatus Mfg.

C27.310 - Fibre-Optic Cable Mfg.

C27.320 - Other Electronic Wire & Cable Mfg.

C27.400 - Electric Lighting Equipment Mfg.

C27.510 - Electrical Appliance Mfg.

Plumbing the depths

Mining, mineral and chemical extraction remains an important part of the Scottish economy and, although the share of exports satisfied by such activity is expected to decline, £6.2 billion is anticipated to be generated from coke, refined petroleum and chemical products; mining and quarrying; and rubber, plastic and non-metallic mineral products in 2019-20.

The North Sea oilfield means that Scotland is naturally a key exporter. For example, 32.4% of Crude Petroleum and Natural Gas Extraction establishments are located in the region, though this figure undersells the importance of Scotland to extraction, given the number of firms that are headquartered in London, owing to its status as a global financial hub.

Given global trends of low oil prices and ongoing shifts away from fossil fuel use, exports in this sector are expected to remain relatively flat, with only mining and quarrying operators expected to record a substantial rise in export revenue, totalling just under £2 billion in 2019-20.

B05.100 - Hard Coal Mining

B06.000 - Crude Petroleum & Natural Gas Extraction

B08.110 - Stone Quarrying

B08.120 - Gravel, Sand & Clay Extraction

B08.910 - Chemical & Fertiliser Mineral Mining

B08.930 - Salt Extraction

B09.100 - Petroleum & Natural Gas Support Activities

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Steady health

The life sciences have endured turbulent times in recent years, but they remain a considerable export opportunity, as highlighted by the Scottish government's 'A Trading Nation' strategy. Stockpiling ahead of a previous Brexit deadline in March 2019, as part of the government's no-deal preparations, stymied pharmaceutical preparations manufacturing exports considerably. This trend was compounded by weakening growth in export markets such as China. The United States is the key destination for pharmaceutical preparations, accounting for 25.4% of exports, although Germany is not far behind, at 16.1%, and the European Union as a whole remains an important export market.

Basic pharmaceutical products have fared better than preparations, with exports rising at a compound annual rate of 6.7% over the past five years. The European Union is by far the largest single market, with Germany, the Netherlands, France and Italy accounting for a combined 44.9% of export revenue.

Naturally, the exposure of life sciences to the EU market poses a potential threat. A no-deal exit from the European Union would cause particular disruption, given the extensive regulation, certification and ratification required in the manufacture of such sensitive products. Operators currently only have to undergo a one-step approval process prior to launching products across Europe. This process could be complicated considerably, despite government plans to transpose EU standards and practices upon the UK's exit date, with the Medicines and Healthcare products Regulatory Agency taking on the functions currently undertaken by EU regulatory bodies.

Overall, life pharmaceutical products are expected to account for £418.6 million in 2019-20, forming a key part of the life sciences sector. Life sciences account for 4.8% of Scotland's total international exports, despite difficult operating conditions and uncertain export markets.

C21.100 - Basic Pharmaceutical Product Mfg.

C21.200 - Pharmaceutical Preparations Mfg.

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